

**DOCKET NO. 03-0372**

**DIVISION OF CONSUMER ADVOCACY'S ("CA")**

**RESPONSES TO INFORMATION REQUESTS FILED BY HREA**

HREA-CA-IR-1. Does the CA support HREA's proposed Model 1 (Competition Based on Utility Proposal) and/or Model 2 (Open Competition with IPPs Only), as discussed on pages 10 to 12 of our PSOP? If not, please explain.

RESPONSE: Although there are basic features of both models that appear to be reasonable, the Consumer Advocate cannot presently state its support for either model in its entirety. The reason is because the Consumer Advocate does not fully appreciate several aspects of both Model 1 and Model 2. For instance, the Consumer Advocate does not fully understand the "facility bidding baseline" as described by HREA. Moreover, the Consumer Advocate believes that there would be circumstances in which retaining an independent contract agent ("ICA") would not be appropriate. As a general matter, the Consumer Advocate would recommend against attempting to prescribe the design, implementation and evaluation processes by which competitive solicitations are to be conducted. That is, a "generic" or "template" solicitation process is not recommended. As explained in its Statement of Position, each electric utility should be expected to apply "best practices" in designing RFPs that apply to its specific circumstances and its specific needs.

HREA-CA-IR-2

Does the CA support a mechanism whereby fuel price & volatility and supply risks are NOT born solely by the ratepayer? If so, does the CA have a proposal for creating such a mechanism?

RESPONSE:

In concept, the Consumer Advocate would find acceptable the application of a mechanism (or mechanisms) that would serve to shift away from consumers some of the risks inherent in fuel price volatility and fuel supply disruption. In Docket No. 99-0207, the Consumer Advocate proposed a modification to HELCO's existing ECAC that was intended to shift away from consumers some of the risks associated with fuel expense. As it pertains to the ECAC, the Consumer Advocate continues to support a modification to the ECAC that would help shift risks away from ratepayers.

As an aside, from a general perspective, a competitive bid process whereby third-party suppliers would sell their energy and capacity to the utility at a fixed bid price, as opposed to the utility's avoided cost would in essence shift away from consumers some of the risks inherent in fuel price volatility and fuel supply disruption. The reason is because Hawaii's electric utility's avoided cost is presently predominantly linked to the price of fuel since the generation is primarily fossil fuel based. such a mechanism.

HREA-CA-IR-3.

Does the CA support HREA's recommendations for improving IRP as described on pages 16 to 19 in our PSOP?

RESPONSE:

The Consumer Advocate agrees that the IRP Framework should be improved to set a better foundation for competitive bidding, as discussed in Section III of its Statement of Position. The Consumer Advocate agrees with HREA's recommendations regarding "Forecasting" and "Demand-Side Management," to the extent that each electric utility should be expected to develop and provide to the advisory committee participants in the development of the IRP, updated short-term and long-term forecasts of both peak load and the foreseeable contributions from demand-side resources (including, if applicable and accepting HREA's categorization of technology types for purpose of this response, sea water cooling and solar air conditioning, net metered renewable systems, customer-sited DG including CHP).

The Consumer Advocate believes that any screening and evaluation of potential supply-side resources should be consistent with established standards in the industry. Here, the Consumer Advocate assumes that the focus would be on the utility's proposed response to identified needs, which may take the form of its "backstop" proposal in the event that third parties do not respond with better proposals through competitive bidding processes.

The Consumer Advocate is concerned with ensuring that the Company's forecasts of peak load and contributions from

demand--and supply-side resources (and its presentation on all other factors influencing its needs) are reasonable, comprehensive and accurate, to the extent possible, and that their inputs and results are readily available to the advisory committee participants throughout the IRP development process in order to permit an assessment of how well the proposed actions meet the needs (including the defined and quantified goals and objectives) of the utility. Prescribing how these assessments are performed and whether they require specific reference in the Commission's IRP Framework would be a subsequent priority. Rather, the Commission should expect each electric utility to adhere to planning practices that meet industry standards and are appropriate to the utility.

Regarding HREA's "Integration" recommendations in its Statement of Position at 18, the Consumer Advocate strongly agrees that the IRP processes should focus on developing a single resource plan that is expected to be the electric utility's best response to identified resource needs. This would require that the Advisory Group have all information regarding an electric utility's system, circumstances, needs and resource options in order to provide meaningful and informed input regarding the resource plan being considered. The Consumer Advocate understands the basis for some of HREA's recommendations to focus on the need to

disseminate better information (as do the Consumer Advocate's).to the members of all IRP advisory committees throughout the entire process.

HREA's specific recommendations for the Advisory Group, as presented in its Statement of Position at 19, appear reasonable. Adoption of the suggested "Advisory Overall Goal," which is to "achieve a collaborative effort with the utility," would benefit each electric utility, the stakeholders in its IRP processes, and Hawaii.

HREA-CA-IR-4.

On page 22, footnote 20, the CA appears to support competitive bidding from IPPs for wholesale power (or DSM measures installations), and does not support competitive bidding for “power plant components that would be procured to construct the facilities whose cost would be reflected in ratebase.”

This position appears to be contrary to CA’s position on the DG docket, in which, the CA supported utility ownership of DG (CHP) on the customer-side of the meter. Such ownership is not only unprecedented for this non-utility function, but would be accomplished without having gone through a competitive bidding process as the CA now proposes in the instant docket.

Please explain this apparent contradiction in positions.

RESPONSE:

The Consumer Advocate is consistent across proceedings in its view that competitive bidding is the desirable approach to resource procurement. In the distributed generation docket (Docket No. 03-0371) the Consumer Advocate recommends that utilities be allowed to own customer-sited DG. However utility ownership of DG equipment on the customer’s side of the meter would not preclude competitive bidding to determine, for example, which DG resources are eligible for inclusion in the utility’s resource plan.

Footnote 20 states the Consumer Advocate’s expectation that the focus of the Commission’s inquiry in this proceeding would be competitive bidding for installations that a third-party would own and operate, and the conditions under which the Commission should expect – or require – such competitive bidding to proceed. Thus, the Consumer Advocate’s Statement of Position adopts a narrow definition of competitive bidding, for sake of focusing the discussion. In fact, the Consumer Advocate does support competitive bidding for “power plant components that would be

procured to construct the facilities whose cost would be reflected in ratebase.”

HREA-CA-IR-5.

On page 37 of the CA's PSOP, the CA states that potential risks or [sic] procuring energy and capacity from 3<sup>rd</sup> Party suppliers is an IRP issue. HREA would concur, but to date, we are not aware of any discussion with the Advisory Groups regarding the merits of utility versus IPP ownership. Therefore, is the CA proposing a change to the IRP process to examine ownership issues as part of determining the preferred IRP?

RESPONSE:

No, a change to the process if not required. A change in the way that the process is executed and information is disseminated is required. To that extent, the Consumer Advocate recommends changes that would make explicit what it views as implicit in the current rules. The Consumer Advocate asserts that (whether or not changes are introduced to the IRP Framework) Advisory Group discussions should address all issues necessary to identify a "least-cost" plan that effectively responds to a given electric utility's resource needs (including the identified and quantified goals and objectives). The Consumer Advocate anticipates that such collaborative discussion would address a wide range of benefits, costs and risks.

HREA-CA-IR-6. On page 39, the CA appears to support HREA's proposed Model 1 (Competition Based on Utility Proposal) as way to address situations where the number of resource sites are limited. Is this correct?

RESPONSE: Please see the response to HREA-CA-IR-1, above.

HREA-CA-IR-7.

On page 43, by contending that “developing an extensive set of rules is not the best way to implement competitive bidding in Hawaii,” does the CA believe that HECO could utilize HREA’s Model 1 or another similar approach now, thus be able to award a competitive bid in time to meet current central generation “need dates” on Oahu, Maui and Hawaii?

RESPONSE:

The Consumer Advocate believes that competitive bidding should be pursued immediately to address needs for incremental resources on Oahu, Maui, and Hawaii. Hawaii’s utilities have conducted effective competitive solicitations in the past. While regulatory refinements to competitive bidding processes may be forthcoming, there is no need to wait for such refinements to pursue the benefits that competitive bidding may offer.

Note that it is not the Consumer Advocate’s position that competitive bidding must occur to meet any current resource needs on each island. As indicated in its Statement of Position, each electric utility must determine whether there are factors that would militate against issuing an RFP. If such factors exist, they should be presented to the Commission, which would determine (possibly through a brief contested proceeding) whether it agrees. If such factors do not exist, the utility should proceed to design and implement appropriate competitive bidding processes.

HREA-CA-IR-8.

As a follow-up to HREA-CA-IR-7, does the CA believe that initiation of a competitive bid process on at least one of “needed” new generation increments could help the development of competitive bidding process that the CA describes on page 44?

RESPONSE:

The long-term benefits that may result from establishing competitive bidding as the “standard procedure” for Hawaii must be considered in any Commission decision on whether or not to proceed with a given RFP process.